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C O N F I D E N T I A L SECTION 01 OF 02 YEREVAN 002061

SIPDIS

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SUBJECT: OFFICIAL VISIT OF PRESIDENT KHATAMI TO ARMENIA

REF: YEREVAN 02019

Classified By: DCM A.F. GODFREY FOR REASONS 1.4 (b) and (d).

1. (C) During Iranian President's Mohammad Khatami's visit to Yerevan, September 8-9, the Armenian and Iranian governments signed seven agreements including the agreements concerning the partial financing and construction of an Armenian-Iranian gas pipeline. The local press and the Armenian Ministry of Foreign Affairs (MFA) officials portrayed the visit as symbolically and economically important. Press reports claimed that the visit signaled increased political and economic relations between Iran and Armenia.

GAS PIPELINE AGREEMENT

2. (C) On September 8-9 Iranian President Mohammed Khatami paid an official state visit to Armenia. We met with MFA officials including Chief of the Middle Affairs division Karen Mirzoyan and Iran Desk Officer Garnik Badalian after the official visit to get a briefing on the substance of the visit. They confirmed the details of the USD 30 million loan to the Armenian Energy Ministry (reftel). Per the agreement, the Iranian construction company "Sanir" was named as the primary contractor. Mirzoyan and Badalian agreed that the Armenian government still needed approximately USD 70 million to complete the pipeline and neither had a clear idea of the origin for the funding. However, both believed that once pipeline construction was started, it would be easier to find either GOAM or international funding to finish the project. Badalian believed that due to weather and bureaucratic realities, the actual construction of the pipeline would start in the spring of 2005. Both Mirzoyan and Badalian were confident that gas would start to be imported from Iran by the agreed upon 2007 date.

ARMENIAN-IRANIAN GOVERNMENT AGREEMENTS

3. (C) Mirzoyan and Badalian confirmed that the Armenian government and Iranian government signed the following agreements:

- Agreement on Principles and Bases for Cooperation between the Republic of Armenia (GOA) and the Islamic Republic of Iran (GOI).
- Memorandum of Understanding on the 5th Joint Session of Inter-Governmental Commission on Armenian Iranian ties.
- Cultural Cooperation Programs for 2005-2007 between the GOA and the GOI
- Memorandum of Understanding between the Customs State Committee of Armenia and the Iranian Customs Service on implementation of the Agreement on Administrative Assistance in Customs Affairs.
- Memorandum of Understanding (MOU) on Cooperation between the Armenian and Iranian Ministries of Energy
- Agreement on Financing the gas pipeline for Meghri-Kajaran section
- Contract on Construction of the gas pipeline.

4. (C) Mirzoyan and Badalian strongly felt that the MOU between the ministries of energy and the pipeline agreements were the most critical of Khatami's visit. Mirzoyan characterized most of the remaining agreements as more protocolary in nature and said that this visit was primarily about economic issues. Badalian stated that both sides had wanted to sign an agreement concerning the Kajaran tunnel, but due to time constraints and last minute unresolved details it was not possible. Badalian believed that the details could be easily worked out and the agreement could be signed at the ministerial level in the near future. Mirzoyan wryly observed that as slow as the Armenian MFA works, the Iranian MFA is twice as slow.

MFA VIEW OF A SUCCESSFUL VISIT

5. (C) Mirzoyan and Badalian both felt that the visit was a success because it was the first visit of an Iranian president since the independence of Armenia. They believed

it also showed that Iran was able to balance it's political and economic interests between Azerbaijan, Armenia, and Turkey. The GOA was also pleased that Khatami agreed to visit the genocide memorial. Mirzoyan and Badalian were however concerned about what reaction the United States Government (USG) would have to Khatami's visit and were searching for any public or official reaction from the American press and the Department of State.

COMMENT

16. (C) While there is clear evidence that both the GOA and the GOI have taken concrete steps to try and increase the level of cooperation between both countries, serious doubts remain as to whether these joint projects will materialize and if they have any lasting effect on the economic and political relations between Armenia and Iran.
EVANS